

To all interested industry parties who pay or
are affected by TNUoS Tariffs

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Our TNUoS Tariff Forecast Timetable for 2021/22 Tariffs onwards: Your feedback sought

Dear Colleagues,

This letter concerns the timetable for our forecasts of Transmission Network Use of System (TNUoS) tariffs, for 2021/22 onwards, over the coming year.

Each year, we publish a view of how TNUoS tariffs may evolve over the next five years in addition to 2 further forecasts for the year ahead. To produce a view of TNUoS tariffs for a given year we need to undertake a complete run of the charging methodology defined in Section 14 of the CUSC. This includes but is not limited to: a forecast of revenue to be recovered¹, a network model of 1400+ transmission circuits, a forecast of generation and demand at each of the 900+ nodes in our model, a forecast of chargeable demand volumes by demand zone and per tariff, almost 100 substations with generation local circuit charges, and a view to the future development of Offshore transmission.

There are currently many ongoing changes that will impact the charging methodology and will therefore affect the value and accuracy of our forecasts. We recognise that our customers value our forward views of TNUoS tariffs, therefore, in advance of this year's forecasts, we are reviewing our forecast timetable and would welcome your feedback on our proposed approach for the forthcoming publications.

Targeted Charging Review

On 21 November 2019, the Authority published their final decision² on the Targeted Charging Review (TCR), and issued directions to NGENSO to raise changes to the charging methodology to give effect to that final decision. These changes will take effect from April 2021.

Under the TCR, the two changes for TNUoS tariff setting and charges are:

¹ This includes revenue for the three onshore Transmission Owners: National Grid Electricity Transmission, Scottish Power Transmission and Scottish Hydro Electricity Transmission; the current and future Offshore Transmission Owners (OFTOs); the Interconnector Cap and Floor regime, and the funds for the Network Innovation Competition Fund.

² <https://www.ofgem.gov.uk/electricity/transmission-networks/charging/targeted-charging-review-significant-code-review>

- The removal of the generation residual, which is currently used to keep total TNUoS recovery from generators within the range of €0-2.50/MWh. This change will be managed alongside CMP317, which seeks to ensure ongoing compliance with European Regulation by establishing which charges are, and are not in scope of that range; and
- The creation of specific NHH and HH demand residual charges, levied only to final demand (which is consumption not used either to operate a generating station, or to store and export), and on a 'site' basis.

As a result, two CUSC modifications have been raised so far:

- CMP327 – 'Removing the Generator Residual from TNUoS Charges'
- CMP332 – 'Transmission Demand Residual bandings and allocation (TCR)'

Two further modifications are expected to be raised in early 2020:

- 'Transmission Demand Residual definitions'
- 'Transmission Demand Residual billing and liabilities'

RIIO-2 Parameter Updates

A number of key parameters that are used to calculate TNUoS Tariffs will also be reset in preparation for RIIO-2, to apply from 1 April 2021. This includes Generation Zones & Connectivity, Expansion Constant and Factors, Local Onshore Security Factor, Offshore Local Tariffs and the Avoided GSP Infrastructure Credit. Input data is required from a number of sources and will become available at different stages throughout 2020.

The following CUSC Modifications have been raised to change the generation zones and the underlying methodology used to establish them:

- CMP324 - 'Generation Zones – changes for RIIO-T2' & CMP325 - 'Rezoning – CMP324 expansion'

Access and Forward-Looking Charges Review

It is worth noting that in December 2018, Ofgem launched their Significant Code Review (SCR) in Access and Forward-Looking Charging³. In scope is a review of the definition and choice of access rights for transmission and distribution users, a wide-ranging review of distribution network charges, a review of the distribution connection charging boundary and a focussed review of TNUoS charges. It is anticipated that any resulting change will be implemented in 2023 and will therefore impact some of the years covered within our 5 Year View. We cannot anticipate the impact that this will have on the tariff setting methodology, it will be incorporated into our publications in due course.

Our proposed approach

Taking into account the initial suggestions from our customers, the ongoing significant changes to the charging methodology to be implemented in April 2021, and the timing of development of these changes; we are proposing the publication timescale as below.

Proposed Timings

There are several pieces of information that the accuracy and value of our forecast depend on. Below is our current assumption on the data availability

³ <https://www.ofgem.gov.uk/electricity/transmission-networks/charging/reform-network-access-and-forward-looking-charges>



- The DNO's and Elexon are expected to make banding data available during February 2020
- It is currently expected that the Modification decisions for the Demand Residual TCR mods and also CMP324/5 (the rezoning mods) will take place in June 2020, in addition to the FMR for CMP327 being submitted to the Authority for approval. The Ofgem Draft Determinations for RIIO-2 are also due to be published in June 2020; this gives us a number of parameters (e.g. WACC, GAV and Operating Costs) that will be used in the calculation indicative RIIO-2 parameters such as the Annuity Factor, Overhead Factor and Expansion constant.
- Updated data will be received from TO's in October for Expansion Constant calculations
- Ofgem Final Determinations for RIIO-2 are expected in November 2020
- There is also an additional information request for information on GSP Infrastructure Projects from TOs to be scheduled for calculation of Avoided GSP Infrastructure Credit.

Given these dependencies, our proposed timetable for tariff forecasts for 2021/22 tariffs onwards is:

By end of March 2020	Initial Forecast of 2021/22 TNUoS tariffs
By July/August 2020	Five Year view of 2021/22 to 2025/26 TNUoS tariffs (including the updated Forecast of 2021/22 TNUoS tariffs)
By end of November 2020	Draft 2021/22 TNUoS tariffs
31 January 2021	Final 2021/22 TNUoS tariffs

Proposed forecast analysis

In our next five-year view of TNUoS tariffs we are proposing to publish the following:

- A year-by-year full set of TNUoS tariffs for generation and demand for each of the five-years⁴. This will be based on our best view of parameters, which is a view of the likely generation, demand, and other network parameters based on the available data at the time of the forecast.

⁴ Tariffs for 2021/22 are being updated throughout 2020/21 as part of the quarterly updates.

- Sensitivity of tariffs to changes to input parameters:
 - Changes to residual tariffs:
 - The error margin and other parameters in G/D split calculation,
 - Demand volumes (Embedded Export volume),
 - Change in total £m revenue.
 - Removal of generation residual tariff (CMP327)
 - Impact of CMP317: Identification and exclusion of Assets Required for Connection when setting Generator Transmission Network Use of System (TNUoS) charges
 - Demand Residual bandings and allocation (CMP332)
 - Changes to locational tariffs:
 - DNO demand data (Week 24 nodal demand).
 - Indicative parameters to be calculated for RIIO-T2, including Expansion Constant and Factors, Local Onshore Security Factor, Offshore Local Tariffs and the Avoided GSP Infrastructure Credit (indicative parameters to be used if sufficient information available, a sensitivity analysis if not).
 - Generation zone updates (in line with CMP324/5 if an authority decision has been made or a sensitivity analysis if not).

Additionally, we will publish two forecasts for 2021/22 tariffs, these will be based on the information available at the time and any assumptions used will be described within the publication.

Feedback

We welcome your feedback on our approach for forecasting the TNUoS Tariffs for 2021 onwards, in particular:

1. the proposed TNUoS Tariff forecast timetable; and
2. What sensitivities you would like us to consider when preparing our TNUoS tariff forecasts, given the availability of data at the relevant point in time.

Please send your feedback to me, via TNUoS.queries@nationalgrideso.com by 24th January 2020. If you would like to discuss anything in this letter, please contact the team on 01926 654633.

We will confirm our timetable of TNUoS forecasts for 2021-22 by 31st January 2020 and continue to engage with you on the sensitivity analysis that we can provide in our forecasts via Transmission Charging Methodology Forum (TCMF) in February.

Yours sincerely,

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